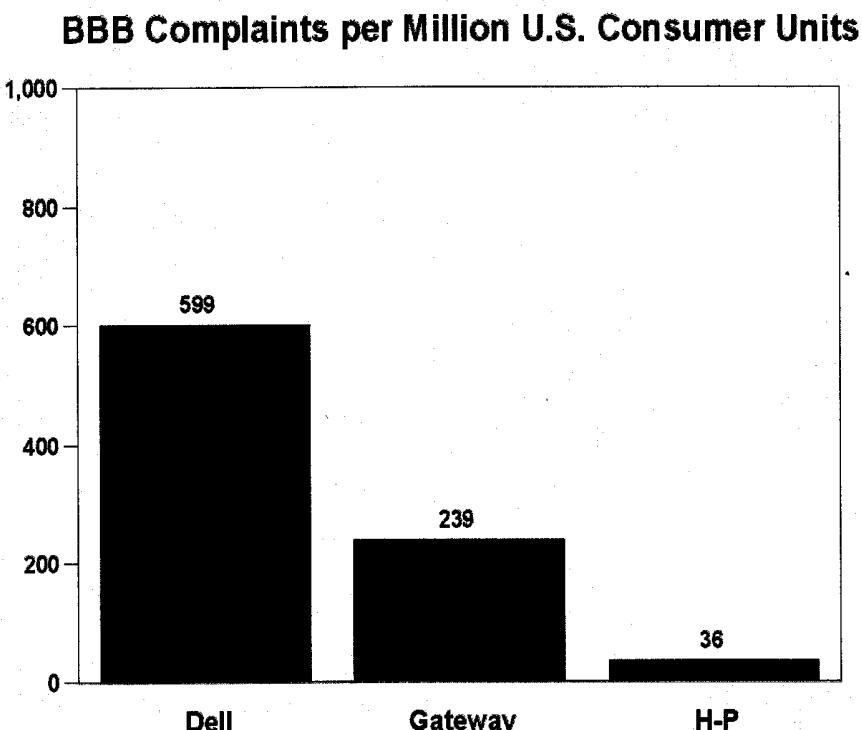


we think BBB complaints should be evaluated in light of consumer shipments instead of overall share

Thus, to put BBB complaints in perspective we compare them to the number of PC and printer units we estimate each vendor sold to consumers and very small businesses. As shown in figure 1, we estimate that for every one million PCs and printers Dell sold to U.S. consumers and very small businesses over the last three years, there were 599 complaints. This compares to 239 complaints for Gateway and 36 complaints for H-P. Thus, for every PC or printer sold to a U.S. consumer, we estimate a Dell customer is about 2.5 times as likely to complain to the BBB as a Gateway customer and possibly sixteen times as likely to complain to the BBB as an H-P customer.

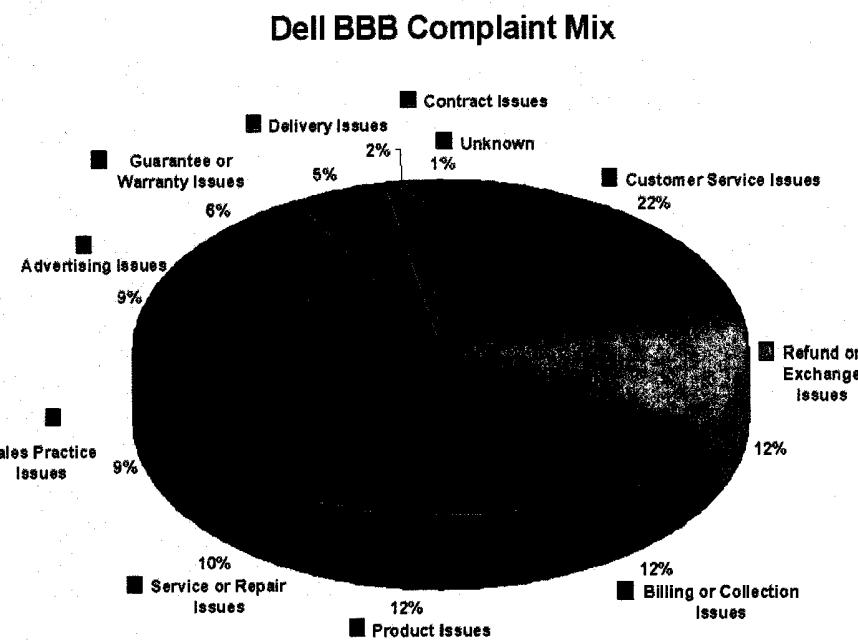
Figure 1: Adjusted for Market Share, We Believe Dell's BBB Complaints Are Even Higher



Trailing 36 Month	Dell	Gateway	H-P
Estimated # of BBB Complaints per mm U.S. Consumer Units	599	294	36
# of BBB Complaints (Trailing 36 Month as of 7/17/06)	14,088	907	2,069
Estimated Mix of U.S. PCs Sold to Consumers	25%	43%	52%
Estimated # of U.S. Consumer PCs Sold	14.3	3.1	18.1
<u>Estimated # of U.S. Consumer Printers Sold</u>	<u>9.3</u>	<u>0.0</u>	<u>39.5</u>
Estimate # of U.S. Consumer Units Sold	23.5	3.1	57.6

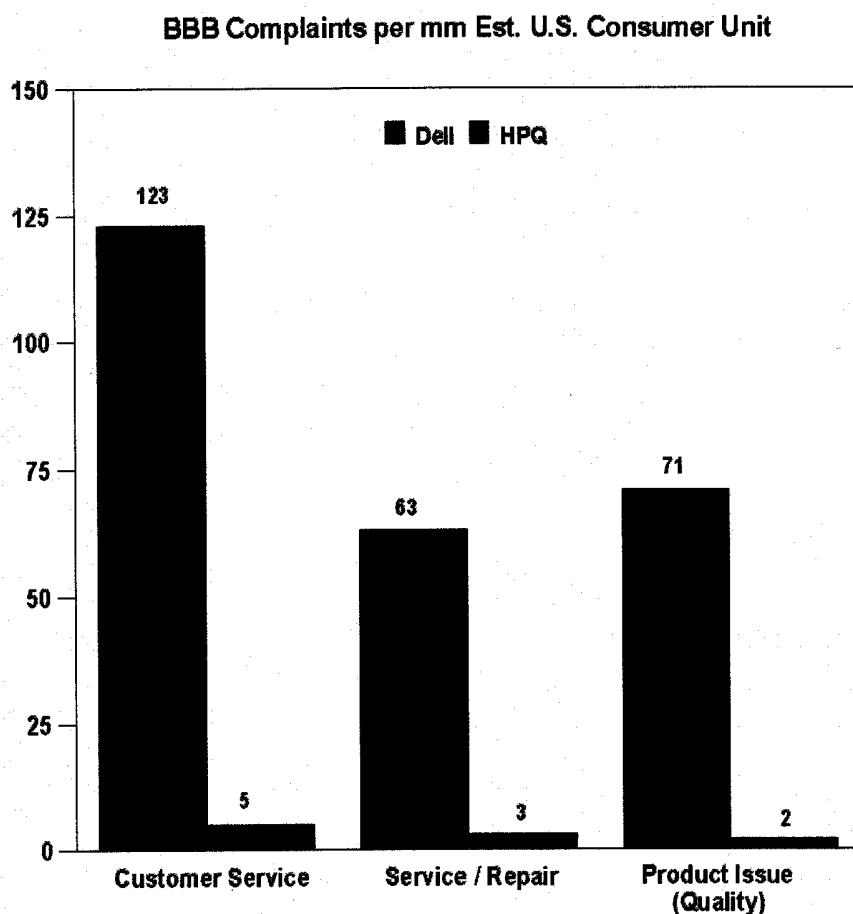
Source: Better Business Bureau, IDC, company reports and Moors & Cabot estimates

* * *

Figure 2: We Estimate about Half of Dell's BBB Issues Are Policy Related

For additional perspective, in figures 3 and 4 we adjust the types of BBB complaints about Dell and H-P to reflect their PC and printer sales to consumers and very small businesses. (The BBB does provide not much detail about Gateway.) From this we estimate that for every PC or printer sold to a U.S. consumer, a Dell customer may be about 30 times as likely to complain to the BBB about product issues as an H-P customer and possibly 20 to 25 times as likely to complain to the BBB about service and repair issues as an H-P customer.

Figure 3: Dell Customers Seem to Complain About Service, Repair and Product Issues



... [W]e estimate that for every PC or printer sold to a U.S. consumer, a Dell customer may be more likely to complain to the BBB than an H-P customer by a potential factor of:

1. 9x for Refund/Exchange and Delivery issues,
2. 12x for Guarantee/Warranty issues,
3. 13x for Billing/Collection issues,
4. 21x for Sales Practice issues,
5. 25x for Advertising issues,
6. 59x for Contract issues, and
7. 24x for Other issues.

198. On 7/22/06, *The Financial Times* reported:

Shares in Dell suffered their biggest single-day fall since the collapse of the dotcom bubble yesterday after the world's biggest PC maker said sales and earnings would fall short of expectations in the second quarter.

* * *

Dell's shares hit a five-year low yesterday . . .

199. On 7/22/06, the *Irish Times* reported:

Shares of Dell suffered their biggest single-day fall since the collapse of the dotcom bubble yesterday after the world's biggest PC maker said sales and earnings would fall short of expectations in the second quarter.

* * *

"Dell, they are having problems because internally they are in disarray," said Eric Ross, an analyst at ThinkEquity Partner *"Inside Dell, they don't know where to turn."*

200. On 7/22/06, *The Wall Street Journal* reported:

Dell to Report Lower Sales and Profit, Signaling Mounting Troubles

Dell Inc. warned that sales and profit will be lower for the fiscal second quarter, *in a sign of the deepening troubles facing the world's largest maker of personal computers as that market stagnates.*

201. On 7/22/06, the *Los Angeles Times* reported:

Dell Shares Plunge After Report;
The PC maker's warning on profit is followed by its stock's biggest decline in six years

Dell Inc. shares tumbled nearly 10% on Friday after the world's largest personal computer maker warned shareholders that second-quarter profit and revenue would fall well short of Wall Street expectations

It was Dell's biggest decline in six years, underscoring how badly the company is under siege

202. On 7/22/06, *Bloomberg* reported:

The stock tumbled 9.9 percent, the biggest decline in more than five years, after Dell said *"aggressive pricing"* will cause second-quarter profit to fall to 21 cents to 23 cents a share, missing the 32 cents expected by analysts surveyed by Thomson Financial.

* * *

Dell's gross margin likely narrowed to 15.2 percent from 18.6 percent a year ago, said UBS AG's Benjamin Reitzes in New York. . . . *The announcements "back our longstanding call that the 'Dell Era' is over," said Reitzes, the No. 3-ranked computer analyst by Institutional Investor.*

203. As this company-specific negative information was revealed and digested by the market, Dell's stock fell from \$22.46 on 7/20/06 to \$18.95 on 7/21/06, on 124 million shares, an \$8 billion market capitalization loss, as more of the artificial inflation came out of the stock damaging prior Class Period purchasers.

204. The 8/7/06 edition of *Barron's* published an article about Dell:

Is Dell at death's door? . . . Something is seriously wrong as evidenced by the pre-announcement two and a half weeks ago of a huge earnings miss for the July quarter.

* * *

Restore Customer Confidence. *Once beloved by its customers, Dell has frittered away much of that trust through inadequate customer service. One measure of the problem: Consumers file complaints about Dell with the Better Business Bureau 16 times more frequently than they do about H-P, after adjusting for the number of each company's units in circulation, says analyst Shaw.*

205. On 8/14/06, Dell confirmed how serious its product quality – and manufacturing – problems were when it announced a huge computer battery recall – *the largest consumer product recall in history – because of defects in its batteries that could cause explosion or fire.*

On 8/15/06, *The New York Times* reported:

DELL WILL RECALL BATTERIES IN PC'S

Dell is recalling 4.1 million notebook computer batteries because they could erupt in flames, the company said yesterday. *It will be the largest safety recall in the history of the consumer electronics industry*, the Consumer Product Safety Commission said.

Dell, the world's largest PC maker, said the lithium-ion batteries . . . were installed in notebooks from April 2004 to July 18 of this year.

* * *

The recalled batteries were used in 2.7 million Dell computers sold in the United States and 1.4 million sold overseas. *The total is about 18 percent of Dell's notebook production during the period in question.*

. . . [T]he cost of the recall could exceed \$300 million. . . .

* * *

Dell has been bedeviled by reports of burning laptops in recent months.

* * *

The battery problem is the latest setback for Dell . . . [I]t has reported lower-than-expected sales and earnings over the last year, sending its stock down more than 40 percent.

206. On 8/15/06, *The Wall Street Journal* reported:

Dell to Recall 4 Million Notebook-PC Batteries – Fire Threat Led to Action; Problem Is Traced to Parts Manufactured by Sony Unit

Dell Inc. . . . plans to recall more than four million notebook-computer batteries that can overheat and pose a fire hazard.

The Consumer Product Safety Commission said the recall is the largest computer-related recall in the agency's history.

207. On 8/15/06, the *Los Angeles Times* reported:

Dell to Issue Battery Recall; After reports that some of its laptops overheated and caught fire, the company will recall the lithium-ion batteries made by Sony.

* * *

The recall, which comes three days before Dell is scheduled to report its second-quarter earnings, *adds to the computer giant's image crisis.*

* * *

The same problems prompted Dell to recall about 284,000 batteries in 2001.

208. On 8/15/06, Baird issued a report on Dell:

Battery Recall Another Black Eye . . .

* * *

- **More Bad PR.** Battery recall follows negative press concerning Dell notebook computers catching fire. Further, announcement follows December 2005 recall of 22,000 units amid similar concerns. *It appears battery issues seem to be plaguing Dell more than other PC vendors, and highlighting product quality and customer service concerns.*

209. After the close of trading on 8/17/06, Dell actually reported the disappointing 2ndQ F07 financial results it had first revealed on 7/20/06. However, Dell now also shocked investors by revealing that Dell *had known that the SEC had been investigating Dell's financial practices and accounting since shortly after Dell's shocking revelations of financial shortfalls on 8/11/05 – a year earlier!* Dell further revealed that contrary to its earlier representations, it was now purchasing microprocessors from AMD as well as Intel, despite its prior assurances that it would not do so, which called into question its continuing receipt of the large rebate payments from Intel. Dell also revealed it *had discovered questionable financial practices in past years* and was conducting an internal investigation into these matters. Finally, Dell admitted to some analysts that Dell's previously vaunted procurement and supply operations were impaired, *requiring a full-scale re-examination of its procurement and supply operations!* On these further revelations, Dell's stock fell from \$23.35 on 8/17/06 to \$20.65 on 8/18/06, on 87 million share volume, a \$5+ billion market capitalization loss as further artificial inflation came out of the stock price, damaging prior Class Period purchasers.

210. On 8/17/06, Dell held a conference call for analysts, money managers and institutional investors to discuss its 2ndQ F07 results. During the call the following occurred.

[Rollins – CEO:] We're clearly disappointed with our financial results.

* * *

[Richard Gardner – Citigroup – Analyst:] Just one other follow-up, could you confirm that there was no impact from a precipitous or sharp decrease in Intel co-marketing dollars on the gross margin in the quarter? . . .

[Rollins – CEO:] We would probably not communicate anything on that. It is proprietary. . . [We] wouldn't comment on any of our agreements with suppliers.

* * *

[Richard Farmer – Merrill Lynch – Analyst:] Jim and Kevin, first on the SEC informal investigation, I think you said August 2005. Is that date

accurate? And if it is, why did you wait a year before disclosing it? What is different today versus a year ago?

* * *

[Rollins – CEO:] . . . An informal investigation really starts out as a letter from the SEC just requesting some information from you. At the time we got it, it seemed like we responded to the information. *There was really no reason to disclose it at that time. . . .*

This has gone on in a deliberate process for about a year. . . . [I]n the course of researching some matters related to a request from them very recently here, we uncovered a couple of issues going back prior to fiscal 2006 that we felt warranted an additional look. We decided . . . we would have an investigation done by our audit committee.

. . . [A]s this goes on more and more people get involved internally, it is really a matter of we're not trying to necessarily keep this a secret from people, but the longer something like this goes on, we felt like we should disclose it publicly. . . .

[Richard Farmer – Merrill Lynch – Analyst:] If I could just follow-up on that, just qualitatively what are the issues? Is it something to do with services, recognition, or can you just help us understand topically what you're looking at, understanding that you don't expect it to be material when you finish the process.

[Rollins – CEO:] *I really can't comment on that since it is under investigation.*

211. On 8/18/06, *USA Today* reported:

Dell's poor earnings hammer stock; Shares fall 5.5% after hours . . .

. . . Battered PC giant Dell announced *more bad news Thursday, including disappointing earnings* and a Securities and Exchange Commission inquiry into its finances.

* * *

Dell also said that the SEC began an informal inquiry into its accounting in August 2005.

* * *

Dell shares fell 5.5% to \$21.55 in after-hours trading.

212. Dell's huge financial shortfalls, the SEC investigation of its financial practices and Dell's abandonment of its exclusive microprocessor purchase practices with Intel caused

certain observers to figure out that the collapse in Dell's financial performance – *especially when computer hardware component prices had continued to fall – could only have resulted from Intel's stopping or curtailing its rebate/kickback payments to Dell, which had been boosting Dell's operating income and profit margins*, either because they were illegal or because Dell had begun to purchase microprocessor chips from AMD. For instance, on 7/23/06, when Dell first revealed that its 2ndQ F07 results would fall far short of forecasted levels, Deutsche Bank issued a report on Dell:

In a rapidly declining component cost environment, Dell's margins collapse?

Over the past several months, the pricing environment for both LCDs and CPUs has been very favorable. . . . Typically, these conditions play to the advantage of PC vendor's [sic] cost models . . . particularly to Dell's due to its high inventory velocity. Something doesn't add up.

* * *

Why did margins collapse?

Dell pre-announced F2Q07 to the downside, with sales now expected to be \$14B and EPS to be \$0.21-\$0.23 vs. Street at \$14.3B and \$0.32. . . . *[W]e find the magnitude of the margin miss puzzling given the component pricing environment*

* * *

Some contacts have indicated that Intel negated Dell's pricing benefit resulting from its exclusive relationship with Intel (legal pressure?). This has many in the industry expecting Dell to add AMD to its desktop lines in order to improve its CPU cost position and negotiating leverage with Intel as early as September.

213. Then, on 8/17/06, after Dell confirmed these horrible operating results and disclosed the SEC investigation and its abandonment of its exclusive supply arrangement with Intel, Deutsche Bank issued another report on Dell:

Despite significant price declines in processors . . . we believe Dell suffered from fewer marketing dollars from Intel, which likely hurt results Q/Q. Perhaps not coincidentally, Dell announced an expanded relationship with AMD

Surprise SEC investigation announced

Dell also announced that it received a *notice in August 2005 from the SEC indicating an informal investigation into Dell's revenue recognition and other accounting and financial reporting matters for certain past periods.*

* * *

So what's really going on? We believe Dell... likely lost significant "co-marketing" dollars from Intel this quarter, either as a result of Dell's decision to start using AMD processors or resulting from AMD's lawsuit against Intel. We believe the net effect was higher components costs for Dell....

214. Other observers agreed. On 8/17/06, Thomas Weisel Partners issued a report on Dell based on its 8/17/06 conference call:

* Lower gross margin weighs on the EPS; *no clarity from management.... [T]he only logical conclusion is that Dell lost a large subsidy from Intel (100bp-plus), but management refused to comment on this issue.*

215. On 8/17/06, *TheStreet.com* issued an article on Dell:

SEC Probes Dell's Books

Dell's profit fell by nearly 50% from the same time last year, as the world's No. 1 PC maker announced a federal investigation into its accounting practices.

Thursday's news about the SEC inquiry marks another setback for the company. According to Dell, the company "has discovered information that raises potential issues relating to certain periods prior to fiscal 2006"....

* * *

And Dell executives said Thursday that the company's vaunted procurement and assembly operations were no longer performing up to par....

Chairman Michael Dell said the company *was undertaking a full re-examination of all procurement and supply chain practices.*

216. On 8/18/06, *BusinessWeek Online* reported:

What wasn't expected was a probe by the U.S. Securities & Exchange Commission....

DELL DEALT A BLOW. But on the heels of a report this week that Dell has to recall more than 4 million defective batteries and amid ongoing concerns over poor customer service, news of slumping profit and an SEC

investigation *left investors dismayed. Shares dropped more than 5% in extended trading, to \$21.55.*

* * *

INTEL FACTOR. *Another number that raised eyebrows: a drop in gross margin to 15.5% from 18.6% a year earlier. Some analysts speculated that at least part of the margin squeeze came as a result of Dell's changing relationship with Intel. . . . The theory is that as Dell began using AMD chips, Intel cut back on contributions to Dell's marketing efforts. . . .*

"I think it took Dell such a long time to get to using AMD chips because it was getting a pretty big subsidy," says Charles Wolf, analyst with Needham & Co. in New York.

217. On 8/18/06, *The Financial Times* reported:

Patience with Dell is starting to wear thin – Analysts suggest internal problems rather than market difficulties are hampering PC maker's turnaround, says Kevin Allison.

* * *

"Dell's dramatic miss on both the revenue and gross margin side highlights just how difficult the resolution [of] Dell's issues is going to be," says Laura Conigliaro, analyst at Goldman Sachs.

* * *

"Dell cited aggressive pricing and a slower commercial market,". . . "But Dell has been blaming the market for some time, while we see much of the fall as Dell-centric," [said Andrew Neff, an analyst at Bear Stearns.]

Ms. Conigliaro agrees that Dell's problems are largely its own. "[The] Dell miss is largely about Dell itself," she says.

218. On August 18, 2006, *Investor's Business Daily* reported:

Dell's Profit Falls; Reveals SEC Probe; Woes Mount For PC Leader; "Real stinker" of a quarter comes after product recall . . .

* * *

"It was a real stinker without a doubt," Morningstar analyst Mark Lanyon said about Dell's results.

The poor earnings and the SEC investigation – on top of a major product recall that Dell announced earlier this week – make it look like *"a snake-bitten company,"* Lanyon said.

219. On 8/24/06, *The Financial Times* reported:

Dell freezes over THE LEX COLUMN

Talk about crashing and burning. As if Dell's share price collapse was not enough, it was forced to recall 4.1m spontaneously combustible batteries.

It is no secret that Dell is malfunctioning. . . . Dell's operating margins have shrunk from more than 8 per cent in recent years to 4.3 per cent.

* * *

Dell's execution has been poor. . . . Dell's profitability has also been squeezed by the cost of improving customer service and higher-than-expected component prices. The former is an extra cost of doing business. The latter should be corrected to an extent following its woefully late use of AMD chips.

220. On 8/30/06, *The Wall Street Journal* published an in-depth investigatory story, detailing many of Dell's internal customer call center service and support operations problems and how its 2003-2004 cost cuts hurt its product quality and customer service, support and satisfaction. It stated:

Consumer Demand and Growth In Laptops Leave Dell Behind – Company's Corporate Focus Backfires as H-P Thrives . . . High Turnover at Call Centers

* * *

As the tech downturn ended around 2003, *Dell continued cutting costs . . . Around that time, Dell executives decided to hire temporary workers to man their five U.S. call centers, rather than recruit more-expensive full-time staff. By 2005, 75% of Dell's call-center staff – those who take calls from customers wanting to buy a PC – were temporary workers. Three years earlier, the majority of those staffers were full-time employees.*

The move backfired. By late 2005, Dell noticed its U.S. consumer sales were flattening. Ro Parra, a Dell senior vice president who was asked to look at the problem, pinpointed call-center problems as one cause. He discovered that the temporary call-center workers who wanted full-time jobs weren't being promoted. Turnover in the centers had soared to 300% a year from 30% in 2002.

" . . . [W]e made those decisions that work with the short term, but they were really damaging to us over the long term," says Mr. Parra.

221. With this widespread publicity and analyst hostility, even Rollins and M. Dell had to make some admissions concerning the serious mistakes Dell had made:

(a) On 8/28/06, *Barron's* published an interview with M. Dell and Rollins:

COULD DELL BE ANY FURTHER IN THE DOGHOUSE?

Over the past 12 months, the giant personal-computer maker has repeatedly fallen short of its growth targets, attracted widespread complaints about customer service and, recently, recalled 4.1 million laptop batteries. Little wonder the stock (ticker: DELL) is down nearly 40% from a year ago, to about 22.

* * *

Barron's: There's been a flood of negative comments about Dell from Wall Street, and a sense that the company is in denial about its problems. How does that all make you feel?

* * *

Rollins: . . . On the whole, I think we have been pretty open about admitting the *various mistakes we have made*.

* * *

[Barron's:] What's the outlook for revenues and margins to improve from these depressed levels?

Rollins: *We are no longer forecasting our quarters, so I won't tell you or anyone else what we expect our revenues or earnings to be.*

* * *

[Barron's:] It looks like a big part of the problem is lower consumer satisfaction. Some point to numbers from the Better Business Bureau showing complaints about Dell running at 16 times those for Hewlett-Packard. What's going on here?

Rollins: . . . *[Y]es, our customer satisfaction did come down . . . because we cut back there. . . .*

Dell: Yes . . . *our customer support declined . . . The problems were of our own making and we can't blame them on the market. . . .*

[Barron's:] Give us a sense of the service improvements that you're planning.

Rollins: *Among other things, we are spending an extra \$150 million to improve our U.S. customer call centers, raising the quality of our agents, reducing hold times, working to ensure the problem is solved on the first call and ensuring that callers are not transferred and re-transferred between experts.*

(b) The 9/18/06 edition of *Fortune* contained an article entitled "**Dell In the Penalty Box.**" It stated:

August was the cruellest month for the computer company. . . . In close succession, Dell Inc. recalled 4.1 million laptop batteries because of fears they might ignite, announced a shockingly bad quarter – profits down 51% from a year earlier – and disclosed that the SEC has launched an informal investigation of its accounting. The company's stock, already down 25% for the year, fell further.

* * *

While the company long had a reputation as the one PC maker that would never let customers suffer a broken machine for long, after-sale service at Dell degraded abysmally in the past couple of years. Dell shifted a large portion of its call centers to India, the Philippines, and elsewhere, and began using scads of temporary workers. "They put a knife in their own heart," Nick Donatiello, CEO of Odyssey, a San Francisco consulting firm, told me. In the much-watched annual University of Michigan American Customer Satisfaction Index, Dell's score dropped sharply in 2005, landing for the first time at only the industry average. The company's internal "likely-to-repurchase" scores showed a decline that was equally disturbing.

"The team was managing cost instead of managing service and quality," Michael Dell confesses. Managers were evaluating call-center employees primarily on how long they stayed on each customer call. That guaranteed customers would be unhappy and, with their problems unresolved, would call again, angrier still. This year the centers started measuring how well the problem is solved the first time. It also used to be that if a customer called with a Microsoft Office problem, they were told to call Microsoft. No more.

The company has hired "thousands" of people – "most of them in North America," Michael Dell pointedly adds. It has dramatically reduced the use of temporary employees. It is eliminating most coupons, promotions, and rebates, settling instead on an everyday-low-price model.

* * *

Another necessary move, *and one that Dell and Rollins admit took too long, was putting microprocessors from AMD in the company's products. For about two years AMD has built processors that are faster and/or more energy-efficient than Intel's in several categories. AMD's prices lists were lower too,*

but until May, Dell alone among major PC makers refused to sell them. Now Michael Dell says with emphasis, "We overestimated Intel and underestimated AMD in prior periods."

(c) The *Fortune* article also contained a separate interview with M. Dell. It stated:

On Dell's customer-service woes

We were doing some things that were just plain wrong. Last year we had parts of our company where we would say, "Hey, let's handle the calls faster." The problem is that if you handle the call faster, you solve 90% of the problem instead of 100%. So the guy calls back. And you've just pissed him off more, and you haven't accomplished a damn thing.

* * *

The team was managing cost instead of managing service and quality. It's totally the wrong answer.

222. Finally, on 9/11/06, Dell revealed that due to the ongoing investigations of its financial statements for past years, Dell could not make the financial filings required by SEC and Nasdaq rules! Dell also revealed it had received a criminal investigation subpoena from the U.S. Attorney for the Southern District of New York for materials related to its accounting practices in recent years and again postponed the analyst meeting it had earlier postponed in 2/06. On 9/11/06, *The New York Times* reported:

Dell Delays Financial Filing As Accounting Inquiry Grows

Dell, the world's largest computer maker, said on Monday that it was delaying the filing of its second-quarter financial report as it works to cooperate with a widening investigation into its accounting practices.

The company said that the United States attorney for the Southern District of New York had begun an investigation into Dell's accounting and that documents related to its financial reporting from 2002 to the present had been subpoenaed.

* * *

Dell also said on Monday that it . . . postponed an annual meeting of financial analysts scheduled for Wednesday.

News of the wider investigation could hardly have come at a worse time for Dell

223. On 9/12/06, *The Wall Street Journal* reported:

Expanding Investigations Increase the Heat on Dell

The hole for Dell Inc. seems to be getting deeper.

The computer maker said it would delay filing its financial second-quarter report because of a widening Securities and Exchange Commission investigation and its own probe into its financial accounting. Dell also said it has been subpoenaed by the U.S. attorney for the Southern District of New York over its financial reporting.

* * *

In addition, Dell canceled its financial-analysts' day for the second time this year; the meeting with Wall Street analysts was to have taken place in New York tomorrow.

Yesterday, Dell shares slid 2.1%, down 46 cents to \$21.19

* * *

“A big part of this is it further undermines management credibility, which is already very low,” said Tony Sacconaghi, analyst with Sanford C. Bernstein & Co. “Certainly the finger is going to be pointed most squarely at Kevin Rollins and CFO Jim Schneider.”

224. On 12/19/06, Schneider was replaced as Dell's CFO and it has been publicly reported that European Union investigators have recommended that the European Antitrust Commission formally charge Intel with illegally thwarting any competition in the computer chip market due to the “exclusivity” discounts provided PC manufacturers, including Dell.

INTEL'S LIABILITY

225. Intel sells microprocessors/chips for computers to PC manufacturers like Dell around the world. The microprocessor/chip is the brains of a PC. It is by far the most expensive and critical component part of a PC. Intel is a public company and its top executives are thoroughly familiar with the financial reporting and disclosure requirements of public companies like Dell. Most of the other computer OEMs which Intel supplied are also public companies.